

Cleveland Office Market

Suburbs Outperform CBD in Fourth Quarter and for the Year as Overall Market Stabilizes

After showing some signs of a rebound last quarter, the Greater Cleveland office market stabilized in the fourth quarter of 2021, as the market absorbed 135,789 square feet of space. This amount of positive absorption came after four straight quarters that saw space loss. Despite ending the year on a positive note for the quarter, the Cleveland office market gave back 416,105 square feet in negative absorption in 2021.

For the year, the suburban submarkets combined to accrue 10,720 square feet in positive absorption, as opposed to the Central Business District, which finished the year by giving back 426,825 square feet.

Office rents and occupancy will continue to be below Cleveland's late 2019 surge for several more quarters. Nevertheless, the fourth quarter of 2021's positive momentum should carry over into 2022, providing the latest pandemic surge is controllable.

The positive absorption decreased the market's vacancy rate for the first time since the third quarter of 2020 and by 30 basis points this past quarter, to 19.1% for all office properties.

The overall average asking rental rate decreased by \$0.10/SF to \$18.28/SF for all classes yet continued to stay above \$18.00/SF for 12 straight quarters.

The overall Class A average asking rental rate of \$21.73/SF dropped by \$0.29/SF from the third quarter of 2021, though the

Current Conditions

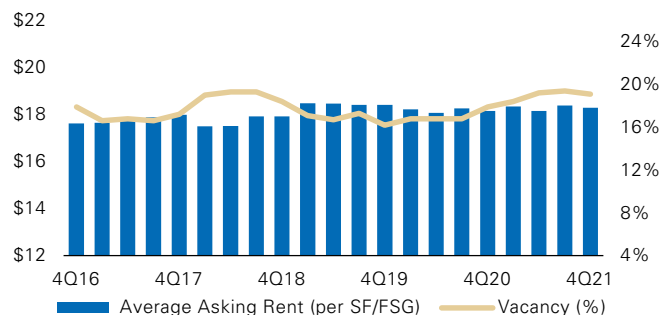
- After four straight quarters of negative absorption, the office market tallied positive absorption in the fourth quarter; the market still remained in negative territory for the year.
- For the year, the suburban submarkets combined to accrue 10,720 square feet in positive absorption, as opposed to the CBD, which finished the year by giving back 426,825 square feet.
- The vacancy rate decreased by 30 basis points to 19.1%.
- The average asking rental rate decreased by \$0.10/SF from the third quarter to \$18.28/SF.
- Headline makers: Sherwin-Williams began construction on its new HQ project; several Northeast Ohio projects vying for TMUD tax credits; handful of CBD office buildings begin, prepare for, or plan for redevelopment.

Market Summary

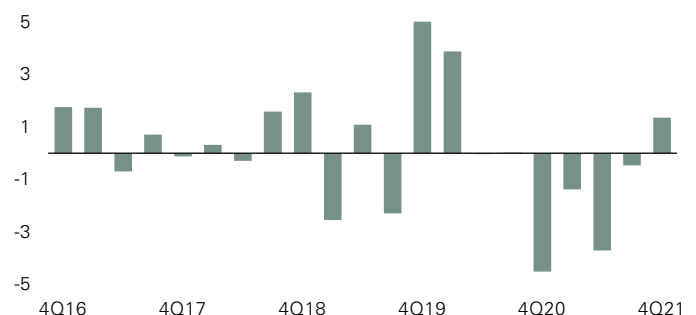
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	39M	39M	39M	→
Vacancy Rate	19.1%	19.4%	17.9%	→
Quarterly Net Absorption (SF)	135,789	(45,322)	(449,504)	→
Average Asking Rent/SF	\$18.28	\$18.38	\$18.15	→
Under Construction (SF)	270,000	145,000	100,000	↑
Deliveries (SF)	0	0	0	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, Hundred Thousands)



RESEARCH Q4 2021

Class B average asking rental rate increased by \$0.06/SF to \$16.65/SF

The 270,000 square feet of office projects under construction for properties not slated to be owner-occupied was the highest since the second quarter of 2018. If properties that are slated for owner-occupation were included, such as the future Cleveland Foundation and Sherwin-Williams headquarters projects, total office properties under construction at year's end was over 1.4 million square feet.

CBD News

The Central Business District remained flat with a 22.5% vacancy rate after giving back just 1,844 square feet in the fourth quarter of 2021; however, the total space returned by the submarket for the year totaled 426,825 square feet. The CBD's vacancy rate was the highest vacancy of any submarket as the year ended.

On the CBD leasing front, AMS signed a 22,968-square-foot lease and UCC Cornerstone/CBLF signed a 9,307-square-foot lease, both at 1300 East 9th Street.

There were two significant CBD office building sales in the Cleveland market this past quarter. The largest sale of the fourth quarter of 2021 in terms of price per square foot was an affiliate of Welty Building Company's purchase of 1350 West Third Street for \$3.38 million, or \$184.53/SF. This strategic 18,290-square-foot purchase will allow Welty, who in a joint venture with Gilbane Building Company is constructing the new Sherwin-Williams headquarters project, to have a mini-headquarters/construction office adjacent to the site.

The other notable office building sale in the CBD in the fourth quarter of 2021 was investor team Innovation Landing's purchase of the 64,000-square-foot, two-building 1835-1849 Prospect Avenue East for \$2.7 million, or \$42.19/SF. The group intends to renovate the office buildings into residential units to appeal to Cleveland State University students and Downtown workers.

The overall asking rent in the CBD increased by \$0.03/SF to \$19.49/SF, the largest gain of all submarkets as it remained the highest average in the market. The CBD Class A asking rent inched up slightly to \$24.20/SF, an increase of \$0.01/SF from the third quarter, while the Class B asking rent in the CBD helped pace the overall increase, with a \$0.05/SF increase to \$17.78/SF.

The paint and coating manufacturing company Sherwin-Williams made news again regarding its planned new 1.0-million-square-foot CBD headquarters. In late November, the company broke ground on the project and received final design approvals from the Cleveland Landmarks Commission and Cleveland City Planning Commission. The office building will be the focal point of an overall Downtown campus project that includes a 920-space parking garage and a pavilion that faces Public Square. The company is expected to finish construction by the end of 2024.

Office redevelopment projects in the CBD once again made news. The 740,000-square-foot Tower at Erieview, located at 1301 East 9th Street, was named a landmark by the Cleveland Landmarks Commission. The ownership group announced a deal with Marriott International Inc. in the third quarter of 2021 to add a 210-room luxury W Hotel to its redevelopment plan, an approximate \$90.0-million mixed-use redevelopment for the 40-story building. Plans also call for 200-plus apartments and an elevated restaurant concept on the top floor, with 320,000 square feet of office space remaining. The attached Galleria was also part of the landmark designation. This project was also one of several in Cleveland that applied for Ohio's Transformational Mixed-Use Development (TMUD) credit, having requested over \$9.3 million from the program.

Ohio's first-round of the long-awaited TMUD program includes \$100.0 million in tax credits that are available for applicants in the first round, with \$80.0 million of that pot being reserved for projects near the state's larger cities. The TMUD program came about due to Senate Bill 39 becoming law at the end of 2020. There were 42 applications statewide for this initial round, a dozen of which were from Northeast Ohio. The other significant office redevelopment project in the CBD that applied for the TMUD credit is the 1.4-million-square-foot Centennial, a \$500.0-million reimagining of the former Union Trust/Huntington Building at 925 Euclid Avenue by owner The Millennia Companies. Millennia is seeking \$40.0 million from the program, the largest request in the state.

Another newsworthy CBD development in the fourth quarter of 2021 also involved an office building conversion. The vacant 45 Erieview Plaza was awarded \$5.0 million in state tax credits to enable its forthcoming new ownership group to convert the 496,000-square-foot building into a live-work apartment complex. BlueLofts Inc. of Dallas confirmed that it has signed a contract to buy the 16-story structure at East Ninth Street and Lakeside Avenue, a purchase that is expected to close in the first quarter of 2022.

Suburban Submarkets

The East submarket's vacancy rate decreased by 110 basis points to 13.7% this past quarter, the third-largest drop in vacancy, and remained the tightest submarket in the area. Rental rates dipped to \$18.61/SF, down \$0.28/SF from the previous quarter. The Class B asking rental rate stood at \$16.88/SF, up by \$0.26/SF, while the Class A rate dipped by \$0.69/SF to \$21.61/SF, tied for the largest Class A drop for any submarket. The overall Class A and Class B asking rental rates in the East still all remained second in the market behind the CBD. Absorption-wise, the East gained the most amount of space for the second quarter in a row, with 104,241 square feet of positive absorption. For the year, the East accumulated negative 11,794 square feet.

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Two noteworthy sales took place in the East: the 35,518-square-foot Beachwood building located at 23215 Commerce Park, which sold to Trailhead Biosystems for \$2.49 million, or \$70.03/SF; and 100 7th Ave. in Chardon, a 64,358-square-foot building that transferred to ISSQUARED, a provider of cybersecurity, cloud, infrastructure, consulting and digital transformation services, for \$1.32 million, or \$20.43/SF. The new owner of 100 7th Ave., the highest-profile Class A office building in Geauga County, intends to occupy a portion of the building and launch the ISSQUARED Technology Center, which will also include a global security operations center.

The suburban office submarkets saw a vacancy decrease of 70 basis points from last quarter to 16.1%, due to 137,633 square feet in positive absorption for the fourth quarter of 2021.

The overall average asking rental rate for the suburban submarkets decreased by \$0.24/SF to \$17.09/SF. The suburban submarket with the highest overall asking rent was the East. The South's overall asking rent was down \$0.06/SF to \$17.14/SF from the prior quarter, while the West's rent decreased \$0.26/SF to \$15.31/SF, the second largest decrease for the suburban submarkets behind the East. The lowest rental rate in the market came in the Southwest, despite an increase of \$0.01/SF to \$14.93/SF.

The West submarket netted 54,462 square feet of negative absorption and finished the quarter with a vacancy rate of 17.0%, an increase of 150 basis points. Despite finishing the first three quarters of 2021 with the distinction of being the only suburb that had positive absorption year-to-date, the West closed out the year as the only submarket with negative absorption in the fourth

quarter of 2021. This development put the West just below the positive for the year with negative 13,747 square feet in absorption. Of note in the West was the Class B average asking rental rate increasing by \$0.23/SF to \$13.95/SF.

The South had the second-most space absorbed of any submarket in the fourth quarter of 2021, with 69,216 square feet. This prompted a 90-basis-point decrease in vacancy to 17.6%. The South ended the year as the only submarket to finish with positive absorption for 2021, with 53,423 square feet.

The South saw some significant leases in the fourth quarter of 2021: Ken Ganley Companies leased 13,805 square feet at 9150 S. Hills Blvd. in Broadview Heights; TTI, Inc. signed a lease expansion of 12,570 square feet at 6480 Rockside Woods Blvd. in Independence; and NFP Insurance/Wellness IQ inked a 10,869-square-foot lease at 6450 Rockside Woods Blvd. in Independence.

Also in the South submarket was the transfer of the 121,917-square-foot Spectrum Building, located at 6060 Rockside Woods Blvd. in Independence to Pleasant Valley Corp. This was one of the largest office transfers of the fourth quarter of 2021 with a price of \$13.0 million, or \$106.83/SF.

The Southwest submarket's average asking rental rate increase came along with 18,638 square feet of absorption, prompting the vacancy rate in the Southwest to decrease by 140 basis points to 22.3%, the largest drop for the quarter.

Office space being marketed for sublease still played a factor in the market's dynamics, as sublet vacancy ended the year at 0.9%, tied for the second-highest tally in nine years.

Select Lease/User Transactions

Tenant	Building/Address	Submarket	Type	Square Feet
AMS	1300 East 9th St.	CBD	New	22,968
Ken Ganley Companies	9150 South Hills Blvd.	South	New	13,805
TTI, Inc.	6480 Rockside Woods Blvd. S	South	Expansion	12,570
NFP Insurance / Wellness IQ	6450 Rockside Woods Blvd.	South	New	10,869
UCC Cornerstone & CBLF	1300 East 9th St.	CBD	New	9,307

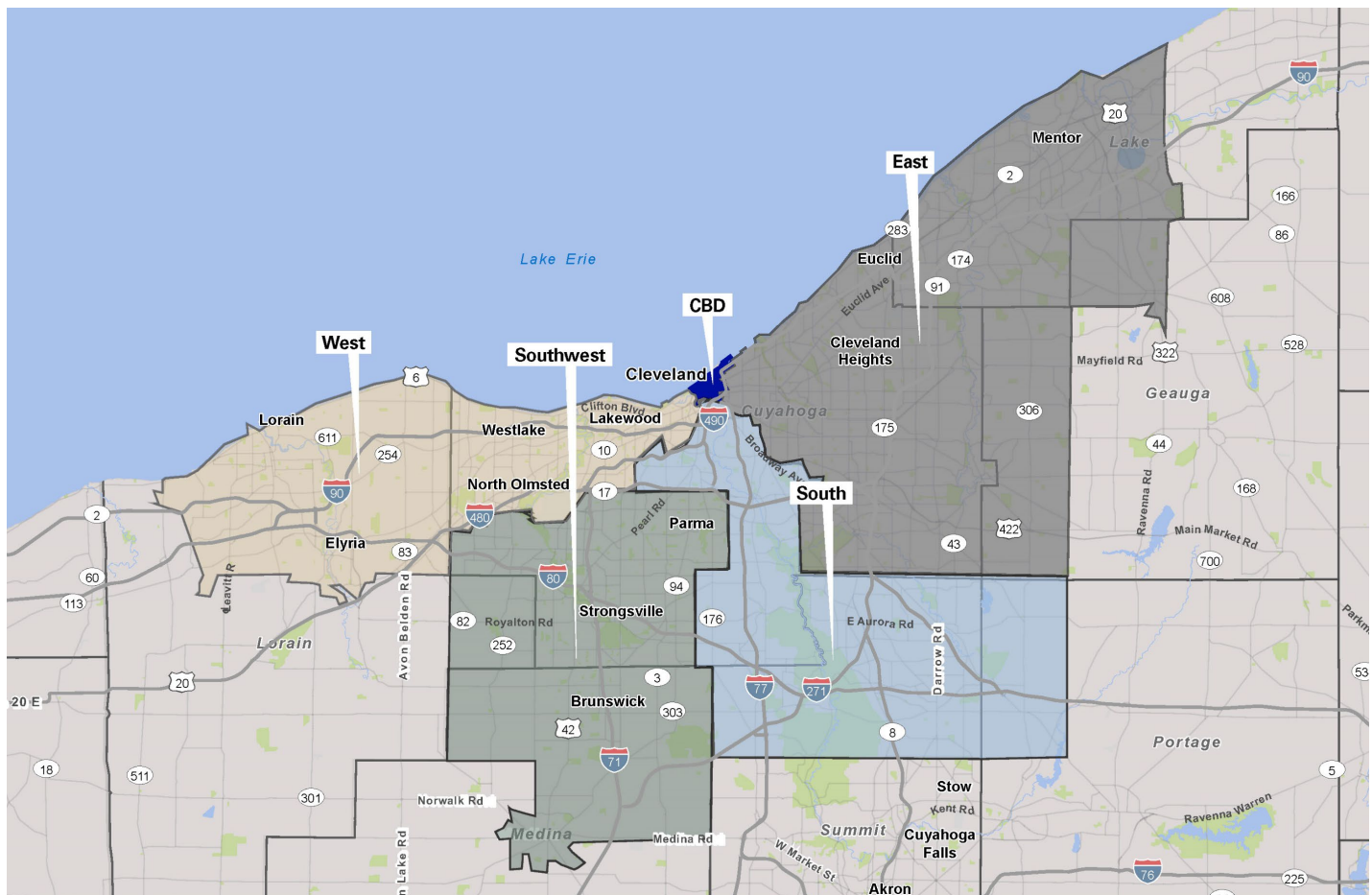
Select Sale Transactions

Building/Address	Submarket	Sale Price	Price/SF	Square Feet
1350 W. 3rd St.	CBD	\$3,375,000	\$184.53	18,290
6060 Rockside Woods Blvd.	South	\$13,000,000	\$106.83	121,917
23215 Commerce Park Rd.	East	\$2,487,500	\$70.03	35,518
1835-1849 Prospect Ave. East	CBD	\$2,700,000	\$42.19	64,000
100 Seventh Ave.	East	\$1,315,000	\$20.43	64,358

Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Quarter Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Average Asking Rent (Price/SF)
CBD Total	17,949,109	45,000	22.5%	(1,844)	(426,825)	\$24.20	\$17.78	\$19.49
East	8,774,773	0	13.7%	104,241	(11,794)	\$21.61	\$16.88	\$18.61
South	7,408,056	125,000	17.6%	69,216	53,423	\$20.31	\$14.96	\$17.14
Southwest	1,344,084	0	22.3%	18,638	(17,162)	\$14.75	\$15.51	\$14.93
West	3,587,003	100,000	17.0%	(54,462)	(13,747)	\$17.42	\$13.95	\$15.31
Suburban Total	21,113,916	225,000	16.1%	137,633	10,720	\$19.82	\$15.57	\$17.09
Market Total	39,063,025	270,000	19.1%	135,789	(416,105)	\$21.73	\$16.65	\$18.28

Cleveland Office Submarkets



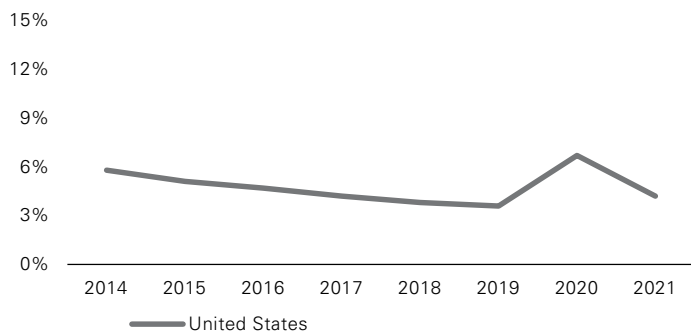
Economic Conditions

The Greater Cleveland economy gained back a modest number of jobs in the fourth quarter of 2021, as total payroll employment increased in November by 1.7% year-over-year. The national total payroll employment number was also up, by 4.1% year-over-year. The Consumer Price Index for Cleveland was up 6.6% year over year.

Four industry sectors saw employment loss, according to preliminary numbers from the Bureau of Labor Statistics, from November 2020 to November 2021: manufacturing at negative 4.2%; education and health services at negative 1.4%; financial activities at negative 0.5%; and other services at negative 0.3%. All other sectors saw an increase from the past year. The leisure and hospitality industry gained the most, by 8.1%; followed by trade/transportation/utilities at 5.2%; mining/logging/construction at 4.3%; professional and business services at 3.8%; the information sector at 2.5%; and government at 0.8%.

Unemployment Rate

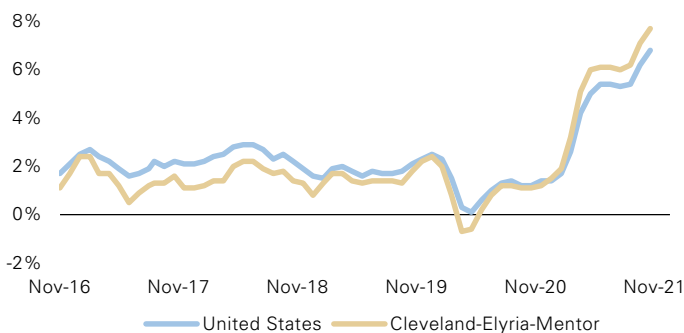
SEASONALLY ADJUSTED



Source: Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

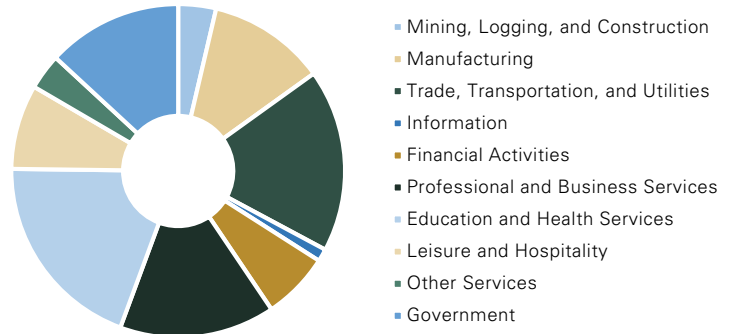
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: Source: U.S. Bureau of Labor Statistics

Employment By Industry

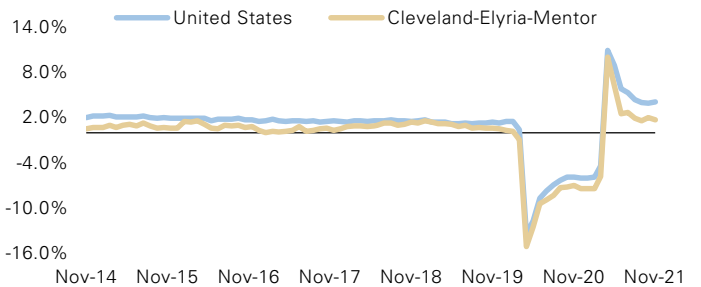
CLEVELAND-ELYRIA-MENTOR



Source: U.S. Bureau of Labor Statistics

Payroll Employment

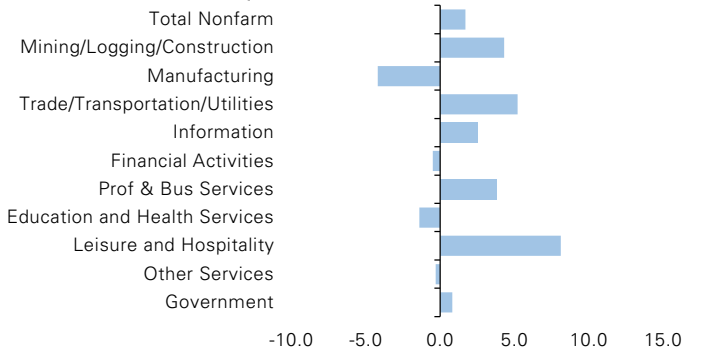
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

CLEVELAND-ELYRIA-MENTOR, Nov. 2021 (preliminary), 12-MONTH % CHANGE, SEASONALLY ADJUSTED



Source: Source: U.S. Bureau of Labor Statistics

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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